

## Monthly Housing Market Bulletin

30 July 2009

This bulletin provides HCA staff with the latest information on housing market trends, the economy and the housebuilders' industry. For more information please refer to the links provided or contact the Investment Analysis Team.

### OVERVIEW OF THE HOUSING MARKET

House prices have begun to see relative stability over the past few months but remain 21% off their August 2007 peak according to Halifax. Residential development land values have consequently also begun to stabilise after seeing substantial falls from their 2007 peaks and rose by 2.1% in Q2 2009 according to Knight Frank. Housebuilders' recent trading statements have generally reported recent stability in the housing market, reductions in cancellation rates and debt levels and largely due to this their share prices have continued to recover from the lows seen in 2008. Mortgage approvals are now starting to rise – in June the number of loans for house purchase reached its highest since April 2008 according to the Bank of England but remain very low by historical standards. Largely due to the lack of mortgage finance transactions in England and Wales remained 42% down on the previous year according to the Land Registry. A sustained significant upturn in house prices and transaction volumes remains unlikely however until there is a significant improvement in the availability of mortgage finance and the wider economy. The UK continued to be in a severe recession with GDP falling by 0.8% in Q2 2009 after falling 2.4% in Q1 2009 and unemployment reached 7.6%, its highest for over 10 years.

### HOUSE PRICES

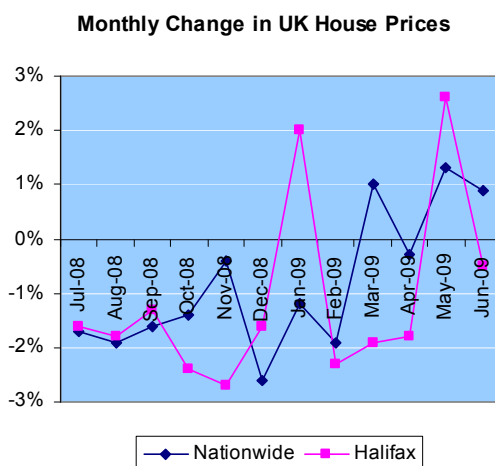
#### Nationwide

- UK house prices rose by 0.9% in June but fell by 9.3% in the year to June.  
[www.nationwide.co.uk/hpi/historical/Jun\\_2009.pdf](http://www.nationwide.co.uk/hpi/historical/Jun_2009.pdf)

#### Halifax

- UK house prices fell by 0.5% in June and fell by 15.0% in the year to June.  
[www.lloydsbankinggroup.com/media1/research/halifax\\_hpi.asp](http://www.lloydsbankinggroup.com/media1/research/halifax_hpi.asp)

The chart below shows the seasonally adjusted monthly change in UK house prices over the past year according to Nationwide and Halifax.



#### RICS

- 18% more surveyors reported a fall than a rise in house prices in June.
- New buyer enquiries rose for the eighth month in June.  
[www.rics.org/Practiceareas/Property/Residential/Market/hms\\_jun\\_09.htm](http://www.rics.org/Practiceareas/Property/Residential/Market/hms_jun_09.htm)

#### CLG

- UK house prices fell by 0.1% in the month to May and fell by 12.5% in the year to May.  
[www.communities.gov.uk/publications/corporate/statistics/hpi/52009](http://www.communities.gov.uk/publications/corporate/statistics/hpi/52009)

#### Land Registry

- House prices rose by 0.1% in England and Wales in June but fell by 14.0% in the year to June.
- The number of properties sold in England and Wales fell by 42% in the year to April 2009.  
[www.landreg.gov.uk/houseprices/](http://www.landreg.gov.uk/houseprices/)

#### Hometrack

- House prices remained unchanged in July but fell by 7.7% in the year to July.
- Sales agreed rose by 6.6% in July.
- The proportion of asking price being achieved rose to 91.5% in July from 91.0% in June.  
[www.hometrack.co.uk/commentary-and-analysis/house-price-survey/20090727.cfm](http://www.hometrack.co.uk/commentary-and-analysis/house-price-survey/20090727.cfm)

#### Rightmove

- The average property asking price rose by 0.6% in July but has fallen by 3.1% in the past year.  
<http://miranda.hemscott.com/static/cms/5/2/8/2/binary/9889793470/3906358.pdf>

Please note that each house price indicator is compiled on a different basis. Nationwide and Halifax's indices are based on mortgage offers approved by them. Hometrack is based on an estate agents survey which includes the estate agents opinion of achievable selling prices. CLG and the Land Registry are based on completions data so record later in the house buying process than Halifax, Nationwide and Hometrack and are thus slower to pick up new trends. The Land Registry data is the most comprehensive available as it includes all property sales including cash buyers whereas CLG excludes cash buyers. Rightmove's index is based on asking prices from its website. The RICS survey is a confidence survey of the property market. Seasonal variations can occur because certain indices such as Halifax's, Nationwide's and the Land Registry's are seasonally adjusted whereas others such as Rightmove's and CLG's are not.

## HOUSING MARKET

### Housing Affordability

- According to the Halifax the house price to earnings ratio – a key affordability measure - has fallen from a peak of 5.84 in July 2007 to an estimated 4.33 in June 2009. In the last housing market downturn the price earnings ratio peaked at 5.01 in March 1989 and fell to 3.09 in October 1995. The long-run average is 4.0.  
[www.lloydsbankinggroup.com/](http://www.lloydsbankinggroup.com/)

### Transactions

- 75,000 UK residential properties costing more than £40,000 were sold in June, up 15% on May according to HM Revenue & Customs.  
<http://news.bbc.co.uk/1/hi/business/8160760.stm>

### Housing Equity

- Households injected a net total of £8.1bn into housing equity in Q1 2009.  
[www.bankofengland.co.uk/statistics/hew/2009/mar/index.htm](http://www.bankofengland.co.uk/statistics/hew/2009/mar/index.htm)

### US Housing Market

- US house prices rose by 0.5% in the month to May, their first monthly increase in nearly three years according to S&P/Case-Shiller's Index.
- US house sales rose 11% in June, the biggest monthly increase in eight years according to the US Commerce Department, however, their index shows house prices fell in June.  
<http://news.bbc.co.uk> and [www.telegraph.co.uk](http://www.telegraph.co.uk)

## MORTGAGES

### Mortgage Lending – CML

- There were 37,400 loans for house purchase in May 2009, 4% up on April 2009 but 28% down on May 2008. This compares with an average of 96,000 loans in May over the last seven years.
- There were 14,000 loans to first time buyers in May 2009, 2% up on April 2009 but 29% down on May 2008. The average first-time buyer deposit was 25% in May, up from 11% a year earlier. The average income multiple was 2.97 in May 2009, down from 3.35 in May 2008.
- There were 23,500 loans for home movers in May 2009, up 5% on April 2009 but 27% down on May 2008. The average deposit was 33% in May 2009, up from 28% a year earlier.
- In May 74% of borrowers took out fixed rate mortgages, the highest since August 2007.  
[www.cml.org.uk/cml/media/press/2329](http://www.cml.org.uk/cml/media/press/2329)

### Mortgage Lending - Bank of England

- There were 47,584 loans approved for house purchase in June on a seasonally adjusted basis, up from 44,169 in May according to the Bank of England. The number of loans for house purchase in June was the highest since April 2008.  
[www.bankofengland.co.uk/statistics/li/current/index.htm](http://www.bankofengland.co.uk/statistics/li/current/index.htm)

### Nationwide offers 125% Mortgage

- Nationwide has introduced a 125% mortgage to existing customers in negative equity who want to move house.  
<http://news.bbc.co.uk/1/hi/business/8141584.stm>

## RENTAL MARKET

### Rental Market – FindaProperty.com

- According to FindaProperty.com average asking rents rose to reach £825, the highest level since March. UK rents have fallen by 5% over the past year but rose 0.2% over the past month. Rentals on flats fell by 0.5% in the past month, whereas rentals on houses rose 0.6% in the past month.  
[www.findaproerty.com/media/rental-index/FindaProperty\\_Rental\\_Index\\_Jul\\_09.pdf](http://www.findaproerty.com/media/rental-index/FindaProperty_Rental_Index_Jul_09.pdf)

### Investment Fund for Rental Properties

- Aviva is to launch a new investment fund with up to £1bn to buy and rent out new-build residential property in partnership with CB Richard Ellis and a major US residential manager. The venture will pre-order purpose-built residential blocks of 100 units or more in the South East to rent out, mainly around major transport hubs and on significant regeneration sites that have stalled owing to the economic downturn. The strategy is based on a US model of large-scale multi-family rented housing.  
[www.ft.com/cms/s/0/5b9e09f2-7a46-11de-b86f-00144feabdc0.html?nclick\\_check=1](http://www.ft.com/cms/s/0/5b9e09f2-7a46-11de-b86f-00144feabdc0.html?nclick_check=1)

## THE ECONOMY

### Growth

- GDP fell by 0.8% in Q2 2009 following a 2.4% in Q1 2009, as the UK continued to be in recession. The 2.4% quarterly fall was the biggest quarterly decline since Q2 1958.  
[www.statistics.gov.uk/cci/nugget.asp?id=192](http://www.statistics.gov.uk/cci/nugget.asp?id=192)
- The IMF predicts world economic growth will decline by 1.4% in 2009 but will rise by 2.5% in 2010. The IMF expects the UK economy to decline by 4.2% in 2009 but predicts growth of 0.2% in 2010.  
<http://news.bbc.co.uk/1/hi/business/8140357.stm>

### Interest Rates

- The Bank of England held the Bank Rate at 0.5% in July, the lowest level in the Bank's 315 year history.  
<http://news.bbc.co.uk/1/hi/business/8142067.stm>

### Inflation

- CPI inflation was 1.8% in June and RPI inflation was -1.6% in June.  
[www.statistics.gov.uk/cci/nugget.asp?id=19](http://www.statistics.gov.uk/cci/nugget.asp?id=19)

### Unemployment

- UK unemployment increased by 281,000 to 2.38 million in the three months to May. The 281,000 rise was the biggest quarterly rise in the ILO figures since records began in 1971. UK unemployment now stands at 7.6% - it's highest in over 10 years.  
<http://news.bbc.co.uk/1/hi/business/8151017.stm>

### Average Earnings

- Average earnings, excluding bonuses, rose by 2.6% in the year to May 2009.  
[www.statistics.gov.uk/cci/nugget.asp?id=10](http://www.statistics.gov.uk/cci/nugget.asp?id=10)

## HOUSEBUILDING

### Barratt

Barratt issued a trading update for the year to 30 June 2009 on 9 July 2009 stating that:

- Barratt completed 13,202 homes in the year to 30 June 2009. Private completions for the year were 24.8% lower at 11,133 compared to 14,803 in 2008. S. 106 social completions were 45.3% lower at 2,069 compared to 3,785 in 2008. Social housing accounted for 15.7% of total completions down from 20.4% in 2008.
- Over the past year total average selling prices fell by 14%. Private average selling prices fell by 19% to c. £166,000 and social average selling prices rose as a result of mix changes by 12%.
- The cancellation rate for the second half was 19.9% compared to 37.4% in the same period in the prior year.
- Barratt's stock of completed units reduced to 822 unreserved units at 30 June 2009, down from 1,821 at 30 June 2008.
- Barratt's net debt reduced by approx. £370 million over the last 12 months to an expected level of c. £1.28 billion as at 30 June 2009. Barratt continues to operate within its financial covenants.
- Barratt continues to invest in new land where it is contractually committed to do so or where it can secure attractively priced opportunities on deferred terms. Total land expenditure for the year to 30 June 2009 was c. £260 million compared to £1,048 million in 2008. The Group does not currently anticipate further material land writedowns as at 30 June 2009.
- As at 30 June forward sales for the Group totalled £464.3 million, compared to £697.6 million in 2008. Since December the value of the forward order book has remained stable (Dec 2008: £455.8 million).
- Since the start of the 2009 Barratt has seen greater stability although sales prices remain under pressure. Barratt believes that there will not be a sustained improvement in trading conditions however until the availability of mortgage finance recovers.  
[www.londonstockexchange.com](http://www.londonstockexchange.com)

### Residential Development Land Values – Knight Frank

- According to Knight Frank the value of residential development land is stabilising in most UK regions after a substantial fall from the 2007 peak.
- The average value of both urban and greenfield land rose by 2.1% during Q2 2009.
- Housebuilders and residential developers now account for 16% of purchasers – up from 8% during Q1 – and are no longer the biggest group of vendors.
- The supply of sites remains highly constrained, with owners dissuaded by sharply lower values.  
[www.knightfrank.co.uk/news/Knight-Frank-Residential-Development-Land-Index—Q2-2009-results-041.aspx](http://www.knightfrank.co.uk/news/Knight-Frank-Residential-Development-Land-Index—Q2-2009-results-041.aspx)

### Bovis

Bovis issued a trading update for the six months to 30 June 2009 on 10 July 2009 stating that:

- Bovis completed 754 homes in the six months to 30 June 2009, 11% down on the 851 homes it completed in the same period of 2008. In the first half of 2009 there were only 16 social housing completions compared to 227 in the first half of 2008. Bovis had 738 private completions in the first half of 2009, an 18% increase over the same period of 2008.
- Bovis achieved an average price of £160,400 for private homes in the first half of 2009, down 18.5% from the first half of 2008.
- Bovis had 901 net private reservations in the six months to 30 June 2009, 92% up on previous year. The lower volume of social housing available for delivery in 2009 led to a combined net reservation total in the first six months of 939 homes as compared to 666 homes in the same period of 2008.
- The Group's unfinished stock has now been reduced to circa 480 homes.
- Net debt fell to £14 million at 30 June 2009.
- Only a small number of specific sites may require a writedown at the half year.
- Cumulative sales achieved to 30 June 2009 for 2009 completions stood at 1,364 homes compared to 1,482 homes at the same point last year. Private sales stood at 1,086 homes in 2009 compared with 888 homes in 2008. There were 278 social homes sold for 2009, down from 594 homes in the prior period.
- Bovis reports that the housing market has shown signs of stabilisation during the first half of 2009 but adds that the continuing lack of mortgage availability, especially for first time buyers of newly built homes, has been challenging to the group.  
[www.londonstockexchange.com](http://www.londonstockexchange.com)

### Kickstart

- Housing Minister John Healey announced on 27 July that 270 stalled development projects across the country have been shortlisted for a share of £925 million which could help get building work on 22,400 homes back on track. The projects have been identified by the HCA through the Kickstart programme. The Government expects almost half the money to be repaid within five years, over 1/3 will go to housing associations and others to help them manage the affordable housing and only 18% consists of direct grant to support developers. Only developers who have accepted a realistic current market price for their land are eligible for Government investment and they must be able to start construction this year. Over 8,600 of these homes would be for affordable rent or sale, with two thirds built to a standard above that required by building regulations, helping to cut CO2 emissions and reduce energy bills.  
[www.communities.gov.uk/news/corporate/1297068](http://www.communities.gov.uk/news/corporate/1297068)

## HOUSEBUILDING

### Persimmon

Persimmon issued a trading update for the six months to 30 June 2009 on 7 July 2009 stating that:

- Persimmon completed 4,006 in the six months to 30 June 2009 with total sales revenue of c. £625m, down from £998m in June 2008.
- Persimmon says sales volumes have been consistently ahead of same time last year. Recently both volume and revenues have shown increasing improvement on the same time last year. Persimmon expects this improving trend to continue.
- Sales prices declined by c. 4% during the six months but prices are now stabilising in some locations.
- Cancellations are historically low at c. 16%.
- There has been a significant reduction in part exchange stock from £120 million in June 2008 to c. £17 million.
- Persimmon opened 45 new developments in the first half and plans to commence work on a further c. 50 sites during the second half. Persimmon has c. 390 operating sales outlets, down from 460 in June 2008.
- Borrowings at 30 June 2009 were c. £495 million down from £906 million in June 2008, representing a gearing level of c. 32%.
- Persimmon's landbank is 64,500 plots, 7 years at current sales rates. Persimmon does not anticipate any further land writedowns.
- Forward sales revenue into the second half of 2009 is c. £700 million compared to forward sales revenue of c. £650 million at the same time last year.
- Persimmon remains cautious about the outlook until mortgage availability improves and employment prospects stabilise.

[www.londonstockexchange.com](http://www.londonstockexchange.com)

### Redrow

Redrow issued a trading update for the year to 30 June 2009 on 9 July 2009 stating that:

- Redrow completed 2,113 homes in the year to 30 June 2009, down from 3,925 in the year to 30 June 2008. Social housing completions were 19% of the total, compared to 15% in the year to June 2008.
- The average selling price was c. £137,500 down 12.4% on the year to June 2008.
- Net debt was c. £215 million as at 30 June 2009, down from £269.1 million in December 2008.
- Redrow has resumed building at a controlled rate across its developments.
- Redrow is evaluating the carrying value of land and work in progress as at 30 June 2009 which will be included in its full year results.
- After being out of the land market for the last two years, Redrow is now selectively negotiating opportunities.
- Forward sales as at 30 June 2009 fell to 1,147 homes from 1,189 in June 2008. The number of private sales increased by 22% to 600 homes.
- Redrow is planning to return the business to its historic focus on traditional family housing. A new housing range is being designed which will be rolled out during the autumn with a full sales launch intended for January 2010. This will significantly reduce the number of apartments and three storey houses for sale.
- Redrow says the sales market over the last six months has proved to be relatively stable, both as regards volumes and prices. Redrow is concerned however about the shortage of mortgage finance and the widespread practice of down valuations by surveyors representing mortgage lenders.

[www.londonstockexchange.com](http://www.londonstockexchange.com)

### Housebuilder Share Prices (Closing)

Six of the seven major listed housebuilders saw a rise in their share price over the past month, the exception being Redrow, following a series of more positive trading updates.

Company	Peak in Share Price	Trough in Share Price	Peak to Trough Change in Share Price	Recent Share Price
Barratt	1,289p (06/02/07)	39p (08/07/08)	-97%	184p (29/07/09)
Bellway	1,690p (05/04/07)	378p (02/07/08)	-78%	700p (29/07/09)
Berkeley	1,938p (22/05/07)	613p (02/07/08)	-68%	799p (29/07/09)
Bovis	1,204p (05/04/07)	271p (20/10/08)	-77%	447p (29/07/09)
Persimmon	1,543p (02/01/07)	184p (03/12/08)	-88%	414p (29/07/09)
Redrow	727p (03/01/07)	96p (08/07/08)	-87%	184p (29/07/09)
Taylor Wimpey	377p (03/07/07)	4p (25/11/08)	-99%	37p (29/07/09)

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